

Message Text

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PAGE 01 ROME 15912 150020Z

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ACTION EB-06

INFO OCT-01 EUR-12 EA-06 ISO-00 FEA-01 AEC-05 AID-05

CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-01

INR-05 INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 RSC-01

SAM-01 OES-02 SP-02 SS-15 STR-01 TRSE-00 FRB-01

XMB-02 OPIC-03 LAB-01 SIL-01 PA-01 PRS-01 USIA-06

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P R 141555Z NOV 74 ZDK
FM AMEMBASSY ROME
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INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION EC BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY LONDON
AMCONSUL MILAN
AMCONSUL NAPLES
AMEMBASSY OTTAWA
AMEMBASSY PARIS
USMISSION OECD PARIS
AMEMBASSY STOCKHOLM
AMEMBASSY TOKYO

C O N F I D E N T I A L ROME 15912

E.O. 11652: N/A

TAGS: EFIN, ENRG, IT

SUBJECT: OSSOLA IDEAS ON: (A) DEFERRED OIL PAYMENTS:
(B) SALE OF IMF GOLD BONDS

PASS TREASURY AND FRB
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PAGE 02 ROME 15912 150020Z

1. SUMMARY. IN MEETING WITH TREASATT NOVEMBER 14, BANK OF ITALY VICE DIRECTOR GENERAL OSSOLA EXPLAINED BASIC CONCEPT OF TWO IDEAS FOR DEFERMENT OF OIL PAYMENTS AND FOR ISSUANCE OF GOLD BONDS BY IMF WHICH HE HAD FLOATED ON NOVEMBER 11 AT KILLARNEY SEMINAR SPONSORED BY IRISH INSTITUTE OF CHARTERED ACCOUNTANTS. END SUMMARY.

2. OSSOLA FIRST DESCRIBED DIFFERENCES IN POSITIONS OF US AND EC ON FUTURE OF IMF GOLD. HE SAID THAT US THOUGHT THAT IMF SHOULD EVENTUALLY SELL ITS GOLD IN FREE MARKET. THIS CONTRASTED WITH VIEWS OF SOME EC COUNTRIES (E.G., FRANCE) WHO WISHED TO RECOUP FROM IMF THEIR GOLD CONTRIBUTIONS. INTENT BEHIND OSSOLA'S IDEA OF SALE OF GOLD BONDS BY IMF WAS BOTH TO PROVIDE NEW FORM OF RECYCLING OF PETRODOLLARS AND TO REACH COMPROMISE SOLUTION RE EVENTUAL DISPOSITION OF IMF GOLD. HE STRESSED THAT HIS IDEAS WERE ENTIRELY PERSONAL, BUT IF THERE WERE SUFFICIENT INTEREST HE MIGHT PREPARE BACKGROUND PAPER FOR SUBMISSION TO EC MONETARY COMMITTEE, G-10 DEPUTIES, OR OTHER APPROPRIATE GROUP. OSSOLA'S PLAN WOULD INVOLVE SALE "ON TAP" OF MEDIUM-TERM BONDS (7-10 YEARS) TO OIL PRODUCERS OR OTHER INTERESTED INVESTORS. BONDS WOULD BE DENOMINATED AND REDEEMABLE IN GOLD AND WOULD PAY LOW RATE OF INTEREST, E.G., 2-1/2 TO 3 PERCENT. ALTHOUGH OIL PRODUCERS AT PRESENT SEEM HESITANT TO BUY GOLD AT PRESENT MARKET PRICE, OSSOLA THOUGHT THAT GOLD-DENOMINATED SECURITIES MIGHT BE MORE ATTRACTIVE TO THEM. AT SAME TIME, AMORTIZATION OF BONDS WITH IMF GOLD WOULD CONFORM TO US PREFERENCE FOR EVENTUAL DISPOSITION OF IMF GOLD IN FREE MARKET. PROCEEDS FROM GOLD BOND ISSUES WOULD BE RE-LENT TO OIL CONSUMERS BY IMF THROUGH NEW CREDIT "WINDOW." INTEREST CHARGED ON SUCH LOANS MIGHT BE SIMILAR TO THAT OF IMF OIL FACILITY.

3. ON SUBJECT OF DEFERRED PAYMENT SCHEME (SEE "FINANCIAL TIMES" ARTICLE OF NOVEMBER 12,) OSSOLA SAID THAT THIS IDEA GREW OUT OF HIS CONVICTION, AND THAT OF OTHER ITALIAN AUTHORITIES, THAT MERE RECYCLING OF CONFIDENTIAL

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PAGE 03 ROME 15912 150020Z

ENORMOUS PAYMENTS FOR OIL IMPORTS WOULD NOT SOLVE PROBLEM. REDUCE AT SOURCE AMOUNTS OF CASH INCOME OF OIL PRODUCERS WHICH MUST BE RECYCLED. UNDER OSSOLA PLAN, OIL CONSUMERS WOULD RECEIVE FROM SOME INTERNATIONAL AGENCY NON-REDEEMABLE BONDS DENOMINATED IN SDR'S TO COVER SOME PERCENTAGE OF THEIR IMPORTS OF OIL. THEY WOULD USE THESE BONDS FOR PARTIAL PAYMENT OF THEIR OIL IMPORTS FROM PRODUCING COUNTRIES. (ACCORDING TO "FINANCIAL

TIMES" ARTICLE, PERCENTAGE OF OIL IMPORT PAYMENTS MADE IN FORM OF BONDS WOULD BE GRADUALLY REDUCED OVER TIME AND INTEREST PAYMENTS ON BONDS ISSUED TO OIL IMPORTERS WOULD BE TRANSFERRED TOPRODUCER NATIONS.)

4. OSSOLA COMMENTED THAT HE HAD STATED QUITE CLEARLY AT KILLARNEY SEMINAR THAT PROESSENT OIL PRICE WAS CREATING IMPOSSIBLE SITUATION. BASIC PROBLEM WAS NOT INABILITY OF IMPORTING COUNTRIES TO PAY FOR OIL, BUT INABILITY OF OIL PRODUCERS TO UTILIZE THEIR CURRENT INCOME FOR PURCHASE OF GOODS AND SERVICES. DEFERRED PAYMENT PLAN WOULD DEAL DIRECTLY WITH THIS PROBLEM, WHILE IMF GOLD BOND SALES WOULD HELP RESOLVE INTERIM FINANCING PROBLEMS.

5. COMMENT: THESE RATHER COMPLEX SCHEMES ARE TYPICAL OF OSSOLA'S EVER-IMAGINATIVE ATTEMPTS TO SOLVE PROBLEMS AND SEEK COMPROMISES. THEY WOULD, OF COURSE, ALSO CONFORM TO CURRENT PERCEPTIONS OF ITALY'S OWN BEST INTERESTS. VOLPE

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